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# UNITED NATIONS POPULATION FUND

## UNFPA INTERNAL AUDIT AND OVERSIGHT ACTIVITIES IN 2004*

Report of the Executive Director

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* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

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1. Pursuant to decisions 2004/17 and 2004/39 on a framework for resolution of issues contained in internal audit reports, and to a request made by the Executive Board at its second regular session in 1996, the Executive Director is pleased to present to the Board a summary of the internal audit and oversight activities of UNFPA in 2004. The present report outlines the key issues raised in the management audits and project audits and the measures taken to address recommendations arising from previous audits. It also outlines the current approach to ensuring the implementation of audit recommendations. Key issues and findings of the Fund's oversight activities are also presented.

## I. ORGANIZATION AND RESOURCES

2. With effect from January 2003, the Division for Oversight Services comprises two Branches: (a) the Oversight and Evaluation Branch; and (b) the Audit Services Branch, formerly the UNFPA Audit Section in the UNDP Office of Audit and Performance Review. Authorized posts in the Oversight and Evaluation Branch include one Chief, three Evaluation Advisers and two support staff; and in the Audit Services Branch, one Chief, five Audit Specialists and two support staff.

3. In addition, internal audit services were contracted out to a leading audit firm covering the Asia and the Pacific as well as the Arab States and Europe regions. The contract, at a cost of about $170,000, was managed directly by the Audit Services Branch. UNFPA also allocated $187,000 for the cost of audit services administered by the UNDP Regional Audit Services Centre (RASC) in Africa. During 2004, these resources paid for the services provided by two audit specialists. The Audit Services Branch also used individual consultants to supplement its capacity and expand audit coverage.

## II. INTERNAL AUDIT AND REVIEW ACTIVITIES

4. The internal audit and review activities carried out during 2004 included the following:

(a) Management audits of eight offices (four in the Africa region, three in the Latin America and Caribbean region and one in the Arab States and Europe region) carried out by the Audit Services Branch with the assistance of one consultant;

(b) Review of 458 audit reports covering 2003 activities for projects executed by Governments and non-governmental organizations (NGOs) carried out by the Audit Services Branch with the assistance of consultants;

(c) Management audits in eight country offices in the Africa region undertaken by individuals assigned to the RASC in Africa;

(d) Contracted audits in four country offices in the Asia and the Pacific region and six country offices in the Arab States and Europe region.

5. The 2004 annual audit work plan was prepared using a risk-analysis approach, taking into account inputs from the Fund's Geographical Divisions. Audit plans were revised periodically to accommodate special requests from management, and to reflect changing circumstances, particularly in the field. Towards the end of the year, the Audit Services Branch expanded its risk assessment model to serve as input to the development of the 2005 audit plan.

6. As part of continuous staff development, the Audit Services Branch staff received training on security and the Atlas software. The Branch staff also attended the Operations Managers training held in August 2004, as well as training on interview techniques, supervision and performance appraisal. Following a proactive and preventive approach, the Branch provided advice to country offices and headquarters units on their follow-up actions to audits as well as on audit requirements for nationally executed projects. The Branch also provided inputs for the drafting of policies on fraud, security and information systems and was regularly consulted whenever systems and procedures for internal controls were reviewed. Furthermore, during 2004, the Branch actively participated as a member of several inter-agency working groups advancing United Nations Development Group (UNDG) initiatives for simplification and harmonization. These working groups created opportunities for inter-agency information sharing as well as for improvements in internal controls.

## III. PRINCIPAL AUDIT FINDINGS ON MANAGEMENT AUDITS OF OFFICES AND FOLLOW-UP ACTIONS

7. Of the 18 reports issued in 2004, the level of internal controls and the compliance with financial, administrative and programme requirements were found to be satisfactory in four offices, partially satisfactory in 10 offices and rated deficient in four offices.

8. A total of 743 recommendations were issued in 2004. The breakdown of recommendations by audited area is as follows:

| Area | Number of recommendations issued in 2004 |
|---|---|
| Organization and staffing | 16 |
| Programme matters | 209 |
| Financial operations | 111 |
| Personnel administration | 153 |
| General administration | 200 |
| Office automation | 54 |
| Total | 743 |

9. Audit findings are closely reviewed by UNFPA at the most senior level and follow-up actions are undertaken by the concerned parties and monitored by the respective divisions and the Audit Services Branch. UNFPA uses a comprehensive audit and recommendation database system (CARDS) to follow up on the audit recommendations issued as a result of the management audit of offices. When an audit report is issued, the report, the individual recommendations and the comments from management are entered in the database maintained by staff of the Audit Services Branch. The Branch informs the concerned offices of the need to regularly update the status of the implementation of recommendations in CARDS. Starting in 2003, the Geographical Divisions have been provided access to the database and have been entrusted with the responsibility for monitoring the implementation of audit recommendations for offices in their respective region. The Audit Services Branch provides assistance to the country offices and divisions on the use of CARDS.

10. UNFPA is instituting several measures to strengthen its internal control systems. The establishment of the Audit Services Branch within UNFPA facilitated consultations on audit and control issues. The need for country offices to comply with organizational procedures was emphasized by the Branch during the Operation Managers training in August 2004. It is anticipated that the posting of Operations Managers in 44 country offices will enhance country office managerial capacity and contribute to a more consistent application of controls in the field. The Atlas software, introduced in 2004, is helping to strengthen oversight of operations by providing country offices and headquarters with more timely information for decision-making. Moreover, UNFPA is participating jointly with UNDP and UNOPS in an independent review of the internal controls in Atlas. The outcome of this review should help to further improve internal controls in Atlas.

11. Pursuant to Executive Board decisions 2004/17 and 2004/39, presented below in table I is a framework for resolving issues contained in internal audit reports. It should be clearly understood that the issues identified pertain to only some offices and do not apply to all the offices audited. The framework delineates the issues identified in internal audit reports classified by audit area, strategies for addressing the issues, a time frame to address the issue and indicators of progress or completion. It should be noted that the audits cover different countries each year. Therefore, the repetition of some issues from year to year does not necessarily imply that corrective actions had not been taken. Nonetheless, it is recognized that implementation of audit recommendations requires continuous compliance and sustained monitoring.

**Table I**

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| 1. | **Organization and staffing** | | | |
| 1.a | The country office organizational chart was either incomplete or inaccurate in 6 out of 18 offices. | Country offices revise their organizational charts to reflect the new typology. | By December 2004, most country offices had implemented the new typology. In some instances, delays were related to vacancies in the post of the UNFPA Representative. | Updated organizational charts are available in the Division for Human Resources. |
| 2. | **Programme matters** | | | |
| 2.a | A standard basic assistance agreement (SBAA) to cover UNFPA activities in countries was not signed in 5 out of 18 offices. | In some countries, the Government is reviewing these agreements and this has led to some delays. The Geographical Divisions follow up with the UNFPA Representatives and | Three months after the auditors debriefing meeting at the country office. | Country offices confirm in the comprehensive audit recommendation database system that a letter extending the conditions applicable to UNDP to UNFPA has been signed by the host Government. |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| | | Country Directors to ensure that letters are exchanged with the host Government seeking their approval to extend the conditions applicable to UNDP to UNFPA. | | |
| 2.b | In 3 out of 18 offices, an appraisal committee meeting was not held to review the programme. | The revised programme guidelines issued in August 2004 emphasize stakeholder participation in the elaboration of the Country Programme Action Plan (CPAP) and annual work plans. | The CPAP is to be signed within one month of the approval of the country programme document.<br><br>Annual work plans are prepared at the beginning of each year. | Stakeholder comments are incorporated into the CPAP and annual work plans. |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| 2.c | The capacity of implementing agencies to manage projects was not assessed in 3 out of 18 offices. | The Geographical Division follows up to ensure that in the future, the country office is using the existing tools available to assess the capacity of implementing agencies to manage projects. | At the time of formulating the draft programme document and prior to working with new implementing agencies. | Reports are available in country offices on the assessment of the capacity of potential implementing agencies. |
| 2.d | Project documents and letters of understanding were signed after the start of project activities in 3 out of 18 offices. | The Geographical Division reminds the country offices of the importance of signing annual work plans and letters of understanding in a timely manner. | Immediately following the debriefing meeting at the country office. | Reduced number of audit observations on the initiation of activities before the signature of the required documents. |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| 2.e | Letters of understanding were incomplete in 5 of 18 offices. | Country offices agree to follow the standard letters of understanding in the future and to obtain the relevant information such as the list of authorized signatories and banking details. | Immediately for ongoing projects. | The country office confirms in CARDS that missing information was obtained from implementing agencies. |
| 2.f | In 4 out of 18 offices, resource mobilization plans were not prepared to document the strategy used to raise additional programme resources. | The Geographical Divisions will follow up with country offices to ensure that a resource mobilization plan is prepared. | Two months after the issuance of the audit report. | Resource mobilization plans are available with the Geographical Divisions and the Resource Mobilization Branch. |
| 2.g | Country office costs were charged to projects including the umbrella project in 3 out | Country offices commit to obtaining written approval from project management teams prior to | Immediately following the auditors debriefing meeting at the country office. | Reduced number of audit observations on charging of country office expenditures to projects. |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| | of 18 offices. | charging costs to projects.<br><br>New guidelines issued in December 2003 allow for additional expenses to be charged to the umbrella project. | | |
| 2.h | Funds allocated to a project were used for unrelated activities in 4 out of 18 offices. | Country offices commit to ensure that project funds are used in accordance with the project work plan.<br><br>The introduction of the Atlas software allows project managers to review charges to projects on a regular basis and take corrective | Immediately following the auditors debriefing meeting at the country office. | Decreased number of audit observations on unrelated charges to projects. |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| | | actions where necessary. | | |
| 2.i | In 2 out of 18 offices, weak monitoring of operating fund account (OFA) balances led to the accumulation of large outstanding balances. | Country offices do not provide new advances until reporting is received for prior advances and follow up with implementing partners to obtain reports for the outstanding advances. | Ongoing. | Country offices report lower outstanding OFA balances.<br><br>Country offices confirm in CARDS that implementing agencies have provided reports on outstanding advances. |
| 2.j | 9 out of 18 offices had not followed up to ensure that management had implemented project audit recommendations. | Country offices in consultation with implementing agencies prepare action plans to implement audit recommendations, and commit to follow up on the actions taken by implementing agencies. | Two months following the preparation of action plans and on a regular basis. | Country offices confirm in CARDS that audit recommendations have been implemented.<br><br>Fewer observations are made by the project and internal auditors on weak monitoring of the implementation of |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| | | | | previous audit recommendations. |
| 2.k | Monitoring requirements, including a monitoring and evaluation plan and field visits were not met in 7 out of 18 offices. | Revised guidelines were issued in July 2004 on programme monitoring and evaluation. They allow for some flexibility based on country-specific situations and capacities.<br><br>Monitoring activities are included in the monitoring and evaluation plan and the office management plan. The monitoring and evaluation plan provides details on the specific monitoring and evaluation activities to be conducted. | Immediately following the issuance of the audit reports. | Country offices confirm in CARDS that programme monitoring requirements were met. |
| 2.l | Project closure procedures | Country offices increase efforts to | Ongoing. | Projects are financially closed within 12 |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| | were not fully complied with in a timely manner in 7 out of 18 offices. | close projects in a timely manner and the Finance Branch strengthens its monitoring over projects. | | months following operational completion.<br><br>Country offices report progress in CARDS. |
| **3.** | **Financial operations** | | | |
| 3.a | In 5 out of 18 offices, weak monitoring of expenditure under the biennial support budget and programme budget led to overexpenditures. | The implementation of Atlas will strengthen monitoring in this area; project managers and staff can monitor the status of activities in real time with transactions being reflected immediately including transactions processed by headquarters.<br><br>Country offices review expenditure on a regular basis. | Ongoing. | Fewer audit observations on the weak monitoring of the biennial support and programme budgets. |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| 3.b | 7 out of 18 offices had instances of inadequate supporting documents for payments, such as purchase orders, invoices, receiving and inspection reports or evidence of satisfactory receipt of services. | Offices are reminded that all disbursement vouchers should be supported by adequate documents that attest to the validity of the transactions and to the satisfactory receipt of goods or services in accordance with the contract or purchase order.<br><br>The recruitment of Operations Managers will strengthen this area. | Immediately following the auditors debriefing meeting at the office. | Fewer audit observations on the inadequacy of supporting documents for payments. |
| 3.c | 4 out of 18 offices had inadequate segregation of duties over the payment and procurement processes. | The internal control framework in Atlas requires that the committing and verifying officers for transactions be different staff members and | Immediately following the auditors debriefing meeting at the offices. | Offices confirm that different individuals certify the receipt of goods and services and approve the payments. |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| | | provides for adequate segregation of duties over transactions. | | Monitoring reports in Atlas do not show any cases of inadequate segregation of duties. |
| 3.d | Cash and travel advances to staff were not accounted for in a timely manner in 8 out of 18 offices. | Offices commit to increase monitoring of advances made to staff and to recovering the advances from staff salaries if advances are not accounted for. | Three months following return from mission or completion of activity. | Offices confirm in CARDS that outstanding advances were accounted for. |
| **4.** | **General administration** | | | |
| 4.a | 4 out of 18 offices had not strictly adhered to the procedures for obtaining quotations for the procurement of some goods costing between $2,500 and $30,000. | The need to strengthen this area was stressed during the Operations Managers training in August 2004. | After the training of the Operations Managers in August 2004 and immediately after the auditors debriefing meeting at the country offices. | Reduced number of audit observations on lack of adherence to procedures requiring quotations. |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| 4.b | Inventory reports were either incomplete or not prepared in 11 out of 18 offices. | On 22 October 2004, offices were requested to validate the 2003 inventory reports and to forward them to headquarters.<br><br>With the introduction of Atlas, the equipment will be recorded in the inventory at the time of receipt. | By 30 November 2004 for the 2003 inventory.<br><br>The assets module became operational at the beginning of 2005. | The 2003 inventory records were received at headquarters and the data was transferred into Altas.<br><br>Offices perform an annual physical inventory and periodically check their inventory records for accuracy and completeness. |
| 4.c | In 6 out of 18 offices, travel services were not covered by a contract. | Country offices are reminded to ensure that a competitive process is initiated with other United Nations agencies to identify a suitable travel agency. | Country offices to initiate discussions with other United Nations agencies within two months of auditors debriefing. | A contract is signed with a travel agency following a documented competitive process and progress is reported in CARDS. |
| 4.d | 3 out of 18 offices need to | In October 2004, the Fund issued a | Ongoing. | Offices meet minimum operating security |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| | strengthen security measures. | Field Security policy setting out the rules and responsibilities of each staff member to ensure the security and safety of assets and staff.<br><br>The creation of posts of Security Adviser at headquarters and Regional Security Specialists will further contribute to improving security in the field.<br><br>The offices seek the assistance of the Field Security Officers assigned to duty stations to identify weak areas. | | standards. |
| 4.e | The personal use of vehicles | Country offices will establish a | Recovery within one month of | Country offices report progress towards |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| | and of telephone facilities was not always recorded and recovered in 9 out of 18 offices. | system to identify and recover costs for the personal use of vehicles and office telephones. | identifying personal use of office vehicles and telephone facilities. | establishing a monitoring system that clearly assigns responsibilities in CARDS.<br><br>Recoveries can be verified in Atlas. |
| **5.** | **Personnel administration** | | | |
| 5.a | The performance appraisal review process was not followed in 9 out of 18 offices. | A new performance appraisal and development system (PAD) was implemented in January 2004. Focal points from the Division for Human Resources are following up to ensure compliance with requirements. | The performance appraisal and development system for 2004 is completed by 31 May 2005. | The Division for Human Resources confirms compliance of country offices with the PAD requirements. |
| 5.b | There were staffing constraints in 4 out of 18 offices due to | Some offices will use the services of recruitment firms to accelerate the | Six months following the auditors debriefing meeting at | Offices confirm in CARDS that all posts are filled. |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| | delays in recuitment for vacant posts. | recuitment process.<br><br>Offices commit to increasing efforts to complete the recruitment. | the office. | |
| 5.c | Procedures for the recruitment, evaluation and reporting on services provided under service contracts and special services agreements were not complied with in 14 out of 18 offices. | The need to strengthen this area was stressed during the Operations Managers training in August 2004.<br><br>Offices commit to following a competitive recruitment process, preparing performance evaluations for individuals on service contracts and special services agreements and meeting reporting requirements. | Immediately following the auditors debriefing meeting at the office. | Offices report progress in CARDS. |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| 5.d | 8 out of 18 offices were not preparing training plans, or the training plans were not always based on the results of the performance appraisal system. | Training is included in the planning phase of the performance appraisal and development system.<br><br>The office training plan will be prepared early in the year and its implementation monitored. | By 31 March 2005. | Offices report completion of training plans in CARDS. |
| **6.** | **Office automation** | | | |
| 6.a | In 3 out of 18 offices, unlicensed software was installed in some computers. | UNFPA purchased a global license for Microsoft Office Professional software. This license covers core staff.<br><br>Additional licenses will be purchased for project staff. | Immediately for core staff.<br><br>For project staff, within two months of the auditors debriefing meeting. | All software is covered by licenses. |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| 6.b | 8 out of 18 offices were not ensuring that regular backups were performed and that a copy of the backups was kept offsite. | The Geographical Divisions and the Management Information Systems Branch remind offices of the procedures that require regular backups of critical information and keeping a copy of backups offsite. | Immediately following the auditors debriefing meeting at the office. | Offices report on action taken in CARDS. |

## IV. REVIEW OF AUDITS OF PROJECTS IMPLEMENTED BY GOVERNMENTS AND NON-GOVERNMENTAL ORGANIZATIONS

12. The audit coverage for expenditures incurred under government and NGO implementation for the year 2003 was 87 per cent. However, 30 per cent of the reports submitted to headquarters had a qualified opinion. The audit qualifications pertained mainly to the need to strengthen the internal control structure over project operations.

13. Through inter-agency mechanisms, the Audit Services Branch is contributing to the development of common instruments to assist country offices in managing the conduct of audits. These instruments include terms of reference for the conduct of audits and guidance in the selection of auditors. In addition, a checklist was developed by the Branch to assist country offices in monitoring compliance with the audit requirements.

14. As of 1 February 2005, 820 audit reports had been received. In its review of 458 audit reports for projects executed by Governments and NGOs in 67 offices, the Audit Services Branch made note of the following points.

15. Adequacy of the audit plans submitted by the country offices/divisions. Audit plans were to be submitted by 31 October 2003, showing details of the projects to be audited, implementing agencies, estimated expenditures to be incurred and to be audited, the terms of reference for the audits and the estimated audit costs. Audit plans were received from 128 offices. This is an improvement over 2002 when only 99 audit plans were received. The audit plans were satisfactory in 70 offices and partially satisfactory in 58 offices. The audit plans that were rated partially satisfactory did not include some of the above-mentioned information.

The Audit Services Branch followed up with the concerned country offices and divisions to ensure that the required information was provided and included in the database maintained by the Branch.

16. Adequacy of audit scope. Project audits should address areas such as: project internal controls, accounting books and records, certification statements, and the periodic financial reports. The audit scope was satisfactory in 45 offices and partially satisfactory in 22 offices. The audit reports where the scope was rated partially satisfactory had not addressed some of the above-mentioned areas. The Audit Services Branch provided country offices and divisions with specific feedback in an effort to ensure that future audit reports cover the scope required by the UNFPA Financial Manual.

17. Completeness of audit reports. Audit reports should convey the auditors' findings, recommendations and overall opinion, as well as the implementing agencies' management comments. The audit reports should also be accompanied by certified copies of all the financial reports and, where an implementing agency is also managing funds provided by other donors, a separate audit report is required for the funds provided by UNFPA in all cases except for six NGOs with which UNFPA has concluded agreements. These six NGOs present their audited financial statements to UNFPA headquarters. Reports submitted were complete in 12 offices. Reports did not meet some of the requirements in 53 offices and were deficient in two offices.

18. Timeliness of audit reports. The audit reports were to be submitted to the Audit Services Branch by 31 March 2004. Of the 820 reports received, 458 audit reports (56 per cent) were submitted on time or shortly after the deadline and 362 audit reports (44 per cent) were submitted late. This represents an improvement of 11 per cent over the previous year.

19. Certification of financial reports. Financial reports should contain certification statements signed by authorized officials of the implementing agencies. The purpose of the statements is to certify the correctness of the information contained in the financial reports. These reports were properly certified in 51 offices. Some reports were not certified in 13 offices and none of the reports were certified in three offices. The concerned offices were duly notified of the need to ensure certification. The Audit Services Branch will continue to monitor this area.

20. Adequacy of the country offices' assessment of the audit reports and action plans. According to the Financial Manual, country offices should review audit reports and prepare an assessment of their compliance with audit requirements. Where there are adverse audit findings, offices are expected to discuss solutions with the implementing agencies and agree on action plans. The assessment of audit reports and the preparation of action plans were satisfactory in 16 offices; in 19 offices, either the assessment of audit reports or the action plan was missing; and in 32 offices they were unavailable. Efforts made by the offices and implementing agencies to implement the recommendations and strengthen the internal controls over projects were noted. The tendency was to draw on feedback from the Audit Services Branch to prepare the action plan afterwards. The offices appreciate the feedback received from the Branch, as it enables them and the project authorities to better address identified weaknesses. Feedback also serves to impress upon the offices the importance of timely planning of project audits and of regular follow-up to the implementation of the auditors' recommendations. This point is also stressed during the management audits of country offices and divisions.

21. The Audit Services Branch reviewed a sample of project audit reports prepared by project auditors. The salient issues identified in these audit reports, the strategy for addressing them, the time frame, as well as the indicators of progress or completion are reported below in table II. It should be noted that the term "office" refers here to both country offices and divisions at headquarters.

**Table II**

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| 1. | Quotations were not obtained when procuring equipment or supplies. | Offices are reminded to follow up with the implementing agencies to ensure that quotations are obtained to strengthen internal controls over procurement and ensure that the procurement function is performed with due regard to economy. | Immediately following receipt of the audit reports. | Operations Managers or Finance staff in the offices perform some tests and confirm in their monitoring visit reports that the recommendation has been implemented. |
| 2. | Project inventory records were either not prepared or were incomplete. | During project visits, offices ensure that project management performs a physical inventory and maintains accurate and complete records. | Two months from receipt of the audit reports. | Operations Managers or Finance staff perform tests and confirm in their monitoring visit reports that the inventory records are maintained and are complete. |
| 3. | Bank reconciliations were not prepared or were prepared late. | At the initiation of programme activities, Operation Managers or Finance staff will brief national project staff on UNFPA financial requirements, and provide additional training and support as required. This training will | One month following receipt of the audit reports. | Operations Managers or Finance staff review a sample of bank reconciliations and confirm in their monitoring visit reports that they are prepared on time. |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| | | include the preparation and review of bank reconciliations. | | |
| 4. | Supporting documents for payments were missing. | Offices obtain the missing supporting documentation from project management for review. In the event that no documentation is provided, the expenditures will be deducted from the expenditure reports.<br><br>The requirements for supporting documentation will be explained to project management. | Two months following receipt of the audit reports. | Operations Managers or Finance staff perform tests on the supporting documentation to payments and confirm in their monitoring visit reports that they meet requirements. |
| 5. | Project financial reports were either inaccurate or missing. | Offices obtain and review the missing reports.<br><br>Inaccurate reports are returned to implementing agencies for correction. | One month from issuance of the audit reports. | Fewer audit observations that project financial reports were either missing or inaccurate. |
| 6. | Accounting records were not well maintained in some projects. | Offices meet with the implementing agencies to explain the accounting records requirements and follow up to ensure that proper books of accounts are kept. | Immediately following the receipt of the audit reports. | Operations Managers or Finance staff perform tests on accounting records and confirm in their monitoring visit reports that they are kept and are accurate. |

| | Issues identified in audit reports | Strategy for addressing the issue | Time frame | Indicator of progress/completion |
|---|---|---|---|---|
| 7. | Project budgets were exceeded or budget revisions were not authorized by UNFPA. | Offices commit to exercise closer monitoring over project budgets. | Immediately following the receipt of the audit reports. | Fewer audit observations on projects exceeding their budgets or on unauthorized budget revisions. |
| 8. | Invalid charges were made to some projects. | Offices remove the invalid charges from the financial reports and explain to the project management the nature of acceptable expenses that can be made under projects. | Two months after receipt of the audit reports. | The financial reports reflect the adjustments made to reverse the invalid charges. |
| 9. | Financial reports on sub-contracts were not received in order to monitor the sub-contractors performance. | Offices meet with project managers and explain the monitoring requirements under sub-contracts. | Two months following receipt of the audit reports. | Operations Managers or Finance staff review some financial reports received from contractors and confirm their completeness and accuracy in their monitoring visit report. |

## V. FOLLOW-UP ON IMPLEMENTATION OF RECOMMENDATIONS FROM PRIOR AUDITS

22. Since 2003, the Geographical Divisions have had access to a web-based audit recommendations management system, to enable them to monitor the status of implementation of audit recommendations in their respective regions. This places accountability with the division management to ensure that audits are followed up, and to detect lack of action or constraints in order to provide the necessary support and guidance. It also enables the Directors to take the follow-up on audit recommendations into account in the assessment of staff performance.

23. An analysis of the status of implementation of the 2004 audit recommendations by the Geographical Divisions revealed that 95 per cent of the recommendations made to the country offices were either addressed or were in the process of being implemented. Only 5 per cent of the recommendations were either open, disputed or without demonstrable action.

24. In a few instances, country offices had not updated the status of implementation of audit recommendations in CARDS. This was partly attributable to technical issues related to access to the system as well as a lack of familiarity with CARDS. The Audit Services Branch is addressing these issues and with the full complement of staff in 2005, the Branch will increase its support to the Geographical Divisions in ensuring that country offices use CARDS and that the divisions provide timely and constructive feedback to country offices.

25. Geographical Divisions recognized in their analyses, that many of the audit recommendations require continuous monitoring, including follow-up whenever division staff visits country offices. Follow-up on previous audits is also an integral part of the scope in subsequent management audits.

## VI. ATLAS

26. Prior to implementing the Atlas software, connectivity and hardware in country offices had to be upgraded. The year 2004 was the first full year of using Atlas. Difficulties were experienced at the beginning due to initial system instability. In addition, staff members had to be trained in the use of the system. UNFPA provided training to Operations Managers to strengthen country office capacity. UNFPA also offers web-based training on a continuous basis to all staff. Through Atlas, functional roles and processes were established and defined in a new internal control framework.

27. The Atlas software enabled the organization to have access to data in real time and therefore some of the weaknesses identified in previous management audits were eliminated. It also allowed for consistent implementation of procedures in all offices. Furthermore, the system enabled managers to access various reports, and focus on key management issues. With the introduction of Atlas in all offices, a central disaster recovery plan for the computer system was implemented that ensured the restoration of access to the system within one day and with a maximum loss of four hours of data.

## VII. POLICY APPLICATION REVIEW

28. In 2004, the Oversight and Evaluation Branch conducted a policy application review of one country programme in the Asia and Pacific region. The objectives of these reviews are to ensure accountability at all levels of decision-making within the Fund's decentralized working environment and to ascertain a results-based orientation in UNFPA operations at headquarters and field levels. These reviews are conducted by senior staff to examine in depth the process of programme development and management taking into

consideration the roles played by concerned country offices, headquarters staff, as well as the country technical services teams (CSTs). Each review examines the steps taken to achieve the UNFPA mission, particularly in promoting the implementation of the Programme of Action of the International Conference on Population and Development (ICPD), and the part the country office plays within the United Nations resident coordinator system. The opportunity is used to assess the relevance and ease of understanding of UNFPA policies and procedures, and to identify areas where greater clarity in programme policy and technical guidance are needed.

29. The policy application reviews provide senior management with information on the Fund's performance in selected countries, as well as recommendations for improvement. At the same time, they provide an opportunity for field staff to give feedback on the nature and quality of support they receive from headquarters and the CSTs. The outcome of policy application reviews is presented to the UNFPA Oversight Committee, which is chaired by the Executive Director. Issues of concern are discussed and follow-up action agreed upon in response to each review. Responsible parties in the field and at headquarters, as appropriate, are designated and the concerned divisions are accountable for implementing follow-up action and reporting on the outcome of these efforts. The Oversight and Evaluation Branch monitors and reports to the Oversight Committee on follow-up action at the organizational level.

30. The review conducted in 2004 was of a category "A" country in which UNFPA support made the transition from humanitarian assistance to development assistance with the formulation and implementation of the first programme of assistance. Securing funds to support humanitarian operations had been a challenge. Nevertheless, with limited resources, UNFPA played an important role in coordinating and monitoring emergency reproductive health assistance. The review garnered important lessons for UNFPA in developing its guidelines for future interventions in emergency situations.

31. A UNFPA Representative covered the newly established country office. Through various project initiatives the country office had supported the Government in implementing the ICPD Programme of Action, contributing significantly to an urgent call to address gender-based violence, including domestic violence, by supporting community education activities, public awareness campaigns, and working with the police and the judiciary to increase their capacity to deal effectively with domestic violence situations. It contributed to the approval of the new draft law on domestic violence and coordinated a strategy resulting in the approval of a national family planning policy by the Ministry of Health. The Government explicitly recognized the relevance of the Millennium Development Goals (MDGs), and MDG targets for the country were the same as national development goals. The collection of data necessary to monitor and report on the goals was, however, still the subject of discussions among donors.

32. UNFPA was a very active and valued member of the United Nations Country Teams (UNCT), and had participated in inter-agency committees covering common premises, administration and information/media relations as well as inter-agency theme groups on capacity development, gender, HIV/AIDS and human rights. The country office had participated in common country assessment (CCA) working groups as well as in the completion of the country's first United Nations Development Assessment Framework (UNDAF) document, prepared in parallel with the nation's first National Development Plan. UNFPA had also participated in UNCT retreats organized to review progress made in the implementation of UNDAF. The United Nations house had been inaugurated in 2000. The sharing of common premises had facilitated good inter-agency coordination.

33. The review found that the UNFPA programme of assistance had helped to establish structures and systems needed for development through strengthening capacity of health care providers and providing equipment, supplies and contraceptives. Important efforts had been under way to build the institutional and managerial capacities of the Ministry of Health in terms of standard setting and enhancing the capacity to

collect data for improved monitoring. The Government and donors valued UNFPA because of its focus on maternal mortality reduction and the impetus the Fund had given in the drafting of domestic violence legislation. UNFPA was also recognized as an advocate for community organizations and NGOs. The Fund's comparative advantage in data collection, in particular, the conduct of a first census, was also appreciated. UNFPA had collaborated closely with WHO and UNICEF to provide training for midwives, as well as courses on family planning techniques and counselling, and on recognition of cases requiring referrals. UNFPA and UNICEF had cooperated in the training of trainers' class for national policy instructors on domestic violence and child protection. They also worked with the Ministry of Health on a nationwide campaign to promote safe motherhood.

34. In general, the review noted that the country office needed to adhere more systematically to established programme planning and monitoring procedures. Logical frameworks had not been used for monitoring purposes because of the lack of data at the different results levels. Although the country office understood the importance of engaging national counterparts in programme management, they found it difficult to do so because of the limited national capacity. The country office had relied primarily on the use of United Nations Volunteers (UNV) and some international experts to meet the technical backstopping needs for UNFPA-supported activities. Use of the UNV modality had been particularly helpful because many of the UNVs spoke the requisite languages and were able to provide on-the-job training and coaching.

## VIII. OVERSIGHT MECHANISMS

35. In 2004, the Fund's Oversight Committee, Management Committee and Programme Committee continued to play an important role in improving accountability, oversight and organizational performance.

The objectives of these three oversight mechanisms were described in a previous report (DP/FPA/2004/6). The main activities undertaken by the committees in 2004 are outlined below.

The Oversight Committee

36. The Oversight Committee met regularly in the course of 2004. The Committee focused on a discussion of the Fund's response to the recommendations of the management letter from the United Nations Board of Auditors on the interim audit of UNFPA, as well as the Fund's response to the United Nations Board of Auditors' final report on UNFPA accounts for the period ending 31 December 2003. The importance of ensuring follow-up action by the concerned units was stressed.

37. The Oversight Committee was briefed on the outcome of a policy application review exercise conducted in 2004. Committee members were also briefed on follow-up action concerning reports on cases of fraud or presumptive fraud. Issues of concern to UNFPA globally were discussed and agreed upon. Meetings were used to review and adjust plans for internal audits. The committee also agreed to expand its membership to include the Director of the Division for Human Resources.

The Management Committee

38. In 2004, the Management Committee regularly monitored the status of financial resource utilization and year-end expenditure projections and recommended corrective and follow-up action when needed. The committee also reviewed and decided on courses of action to address various issues related to the Atlas system that was introduced in 2004. In addition, the committee reviewed drafts of the revised financial regulations and changes to the policy on cost-recovery of indirect costs related to

co-financing. These reports were presented to the Executive Board at the first regular session in January 2005.

39. Security was made a standing item on the agenda of the Management Committee to highlight the need to enhance UNFPA efforts in this area. The work of the committee included reviewing drafts of the Field Security Policy and reviewing proposals to include security concerns in audit reviews.

40. During 2004, the Management Committee reviewed draft versions of new and revised versions of existing management-related policies and procedures, including, but not limited to, an information technology policy, a translation policy, procurement procedures and a directory maintenance policy. The approved policies and procedures are available for all staff on the UNFPA intranet under the Policies and Procedures Manual. The committee also functioned as a sounding board for discussions on various aspects of results-based management, including the Fund's management-for-results framework.

The Programme Committee

41. The Programme Committee met on a monthly basis to discuss a range of policy and procedural issues pertaining to UNFPA programme strategies and operations. In particular, the committee reviewed and approved revised chapters of the Policies and Procedures Programme Manual, which has now been updated in line with the harmonization initiatives led by the UNDG. The Programme Committee discussed policy development related to capacity development, humanitarian response and the substantive areas of UNFPA operations: reproductive health, population and development, gender, human rights and culture.

42. The Programme Committee reviewed the implementation of existing policies and guidelines, including the intercountry programme and the knowledge-sharing strategygt. It oversaw the preparation of a quality assurance action plan that will serve as a comprehensive guide for headquarters units to support the programming process at the country level. Under the aegis of the committee, work was also initiated to develop a programme information management system to support the programme elements of Atlas Wave II.

## IX. RECOMMENDATION

**43. The Executive Board may wish to take note of the present report (DP/FPA/2005/9) and comment on the reporting format.**

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